The Real Role of Treasurer

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The corporate treasurer's world has undoubtedly changed in recent years. As banks received bailouts from taxpayers, treasurers found it harder to raise corporate capital. Then, as a new and unanticipated layer of vendors defaulted, treasury was forced to revise counterparty credit models. Simultaneously, as nearly every financial market heralded unprecedented volatility, treasurers needed to reinvigorate their hedging standards.

No one questions that many treasurers toiled long and hard to protect their firms from the material risks associated with these complex situations. Their success is not in question. The question is: Did anyone outside the treasury department care?

Treasury is a complex profession. The dynamics of market trading volatility and liquidity are not simple concepts for most finance staff to understand. As a result, the corporate treasury department can easily migrate to an isolated function. Its work can evolve to focus solely on central holding-company activities that are only ancillary to the firm's core operations. And this transition is allowed to happen because other finance staffers will not effortlessly grasp treasury's relevance to the firm's financial success. Treasury becomes sidelined as the pertinence of its work loses functional application for the rest of finance.

The same cannot be said for the accounting department. Certainly, the controller's work is just as complicated as the treasurer's. In fact, today's public company controllers must produce textbook-length reporting packages every three months as dictated by endless volumes of intricate accounting standards and "guidance."

The difference from the treasurer's work, though, is that the common finance staffer understands the contents of the standard income statement and balance sheet. The concepts of accrual accounting guide the vocabulary for which the firm's results are discussed. And the income statement forms the basis for most companies' financial objectives. As such, the controller's strategic influence is not only obvious, but embedded.

This divide is a result of historical design. The foundations of financial reporting were built around the concepts of accrued expectations — as reflected on the income statement and balance sheet — instead of realized economics, as reflected in the firm's bank accounts. So it is only natural that controllers, and not treasurers, find an unambiguous connection between their work and the firm's operations.

But this dynamic has begun to change. The language of accounting is evolving. And as traditional accrual accounting starts to incorporate tangible economics, treasurers also gain a practical connection to operational finance.

The first wave of reporting changes occurred when many activities that were traditionally held off-balance sheet transitioned on-balance sheet — the most memorable of which related to hedging activity. In this, the economics of market risk, a topic traditionally relegated to treasury, were incorporated into the accounting conversation.

More recent changes focused on fair value. This evolution first seemed like a simple extension of the on- versus off-balance sheet conversation. But the consequences of market illiquidity revealed the true nature of fair value reporting. Again, treasurers gained a clear link to what is now part of standard financial operations.

But it's the pending changes that might prove the most pervasive. Through the Financial Statement Presentation project, the Financial Accounting Standards Board and International Accounting Standards Board are working to alter the basic financial statement formats.

The most controversial change involves the abolition of the singular presentation of an indirect cash flow statement and a mandate to present a direct cash flow statement. Attached to the need for direct cash flow information, there will also be the introduction of a "reconciliation schedule." This report's format starts with the firm's direct cash flow statement and then lists the impacts of accruals and fair value adjustments to ultimately reconcile with comprehensive income.

Through these new presentations, the language of financial strategy will certainly shift. And as a result, corporate objectives will similarly evolve.

The magnitude of this change should not be underestimated. Concepts such as corporate liquidity, economic return and realized versus anticipated market risk will be plainly presented in these new statement formats. And conversations about real cash flow will replace references to inferred non-GAAP metrics. Even the demise of the concept known as EBITDA (earnings before interest, tax, depreciation and amortization) could follow.

Practical treasurers will take a leading role in orchestrating what this change will mean for their firms. As the current owner of cash flow, treasurers should be uniquely placed to explain the new language. They are the perfect catalyst for this part of the reporting evolution. But in order to be relevant, treasury information will need to connect to operating finance. And it is through that bridge that treasurers can find their practical input to operational strategy.

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